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STATE FOR U/S HUGHES

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SUBJECT: SCENESETTER FOR U/S HUGHES, VISIT TO EL SALVADOR, DECEMBER 6, 2005

Introduction

1. Embassy San Salvador extends a warm welcome to you and your party on December 6, 2005. We expect your visit will underscore the U.S. commitment to the people of El Salvador in assisting their recovery from Hurricane Stan and the eruption of the Santa Ana volcano in early October. Combined, these natural disasters killed 128 people and in the immediate aftermath left 67,000 people temporarily homeless; another 5,000 were permanently displaced. The twin disasters caused about \$355.6 million in economic damages according to the United Nations, equivalent to 2.2 percent of GDP. To date, international donors have offered \$7 million in disaster relief funding. The government is also reprogramming loans from the Inter-American Development Bank and other sources for reconstruction.

2. El Salvador is particularly prone to natural disasters, suffering from hurricanes, earthquakes, and volcanic eruptions on a regular basis. These natural disasters, compounded by the country's war-torn past, have posed significant development challenges for El Salvador. One defining characteristic of the Salvadoran people, however, is their ability to face adversity and rebuild their lives.

United States - El Salvador Relations

3. El Salvador is one of our strongest allies in the Western Hemisphere, and is a bedrock of economic and political stability in the region. In broad terms, U.S. goals in El Salvador are to build prosperity, enhance security, promote democracy, and invest in people. El Salvador is committed to open markets, fiscal responsibility, individual freedoms, rule of law, and the fight against terrorism and other international criminal activity. El Salvador is the only other country in the Western Hemisphere to maintain troops in Iraq.

4. El Salvador was the first country to ratify CAFTA-DR, and President Saca is hopeful the agreement will be implemented January 1, 2006, to give the economy a much needed shot in the arm. The Millennium Challenge Corporation recently declared El Salvador eligible for MCC funding in 2006; El Salvador has identified a possible compact that would integrate transportation links and health and education improvements for the impoverished northern part of the country. The United States is the largest foreign investor in El Salvador, principally in electricity generation and distribution, but also in textiles and apparel, financial services, and call centers. The Department of Homeland Security recently notified El Salvador that it would not participate in the U.S. Container Security Initiative, significantly lowering the country's attractiveness as a transshipment hub.

Domestic Political Overview

5. President Elias Antonio "Tony" Saca of the governing Nationalist Republican Alliance (ARENA) party assumed office June 1, 2004, after winning a hotly-contested presidential race by 22 percentage points. President Saca's ARENA party holds only 29 of 84 seats in the Legislative Assembly, but through alliances with smaller parties, regularly passes legislation requiring a simple majority. ARENA's major political opposition is the leftist Farabundo Marti National Liberation Front (FMLN), which has been weakened recently by internal struggles and defections. Attention is already focusing on municipal and Legislative Assembly elections scheduled for March of next year; early polls suggest that ARENA may win additional legislative representation.

Domestic Economic Overview

6. El Salvador's stable economy, the result of a broad reform agenda implemented by three successive ARENA governments, has earned El Salvador an investment-grade debt rating from Moody's, and provides a measure of economic predictability. The government views foreign investment as crucial for economic growth and development and has taken numerous steps in recent years to improve the investment climate. Nonetheless, the economy has been growing at a disappointing rate of about two percent per year since 1999, despite its excellent macroeconomic fundamentals.

17. President Saca's highest priorities are reinvigorating El Salvador's economy, creating jobs, and improving the nation's infrastructure. Roughly 40 percent of the population still lives in poverty, though poverty rates have declined in recent years thanks in part to remittance flows from Salvadorans in the United States that may top \$3 billion in 2006. A recently announced anti-poverty program will provide direct subsidies to the poorest Salvadorans; participants will be expected to send their children to school and participate in public health programs to receive the subsidy.

El Salvador's Foreign Policy

18. El Salvador is the only other country in the Western Hemisphere with troops in Iraq and has recently sent its fifth contingent to serve there with coalition forces. El Salvador's postwar ARENA governments have generally been reliable in their support for U.S. positions in international fora such as the United Nations, including on issues such as U.N. reform, human rights abuses in Cuba, the Middle East peace process, and free trade in Latin America.

Migration Issues

19. As many as two million Salvadorans live in the United States, most illegally. Since the 2001 earthquakes, between 250,000-280,000 Salvadorans have benefited from Temporary Protected Status (TPS), living and working legally in the United States. The U.S. announcement in January 2005 of a further 18-month extension of TPS was of paramount importance to the Saca Administration. El Salvador is focused on obtaining permanent status for TPS recipients, claiming it cannot absorb that number of returnees--President Saca raised this topic with President Bush during their meeting on the margins of the Summit of the Americas, and President Saca may raise this issue with you, linking it directly with Hurricane Stan.

Terrorism and Crime

10. El Salvador has been a strong supporter of the United States in the fight against terrorism and international organized crime. Drug trafficking has received significant government attention and cooperation; El Salvador hosts a Cooperative Security Location at Comalapa Airport, one of three in the region. Trafficking in persons remains a serious problem, but the police are conducting raids against those suspected of exploiting children. Gang violence is a growing concern for all levels of society and has a serious impact on economic development. The FBI will soon open a permanent office at the Embassy to exchange intelligence on gang organizations.

Civilian-Military Relations

11. The Armed Forces of El Salvador (ESAF) are capable, professional, and subordinate to civilian authority. The military consistently receives high approval ratings in public opinion polls, reflecting its dramatic transformation since the 1980-1992 war. The fifth contingent of a 380-person "Cuscatlan Battalion" task force that rotates every six months departed for Iraq in August 2005; nearly 2,000 Salvadoran soldiers have now served with coalition forces in Iraq. The Battalion has suffered two fatal casualties in Iraq, one combat death in Najaf on April 4, 2004 and one non-combat-related traffic death in Hilla on June 27 of this year. The ESAF has performed admirably in humanitarian and reconstruction efforts in support of the Iraqi people.

Barclay